

**CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT**

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2014

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City of Montezuma, Iowa
Municipal Light and Power Plant
City Officials
As of Year Ended June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Doug Ver Meer	Chairman, Light Plant Trustee	January, 2017
Sheryl Freeborn	Light Plant Trustee	January, 2016
Charles Sheets	Light Plant Trustee	January, 2018
John Bushong	Light Plant Trustee	January, 2018
Kevin Kudart	Superintendent	Indefinite
Shanel Fahlenkamp	Trustee Secretary	Indefinite
Victoria Place	Attorney	Indefinite
Gene Lasuer	Labor Attorney	As needed
(After January 2014)		
Doug Ver Meer	Chairman, Light Plant Trustee	January, 2017
Charles Sheets	Light Plant Trustee	January, 2018
John Bushong	Light Plant Trustee	January, 2018
Sheryl Freeborn	Light Plant Trustee	January, 2016
Kevin Kudart	Superintendent	Indefinite
Shanel Fahlenkamp	Trustee Secretary	Indefinite
Victoria Place	Attorney	Indefinite
Gene Lasuer	Labor Attorney	As needed



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Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Trustees
City of Montezuma Municipal Light and Power Plant
Montezuma, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant, a component of the City of Montezuma, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma Municipal Light and Power Plant's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and Budgetary Comparison Information on pages 5-7 and 19-20 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 12, 2014, on our consideration of the City of Montezuma Municipal Light and Power Plant's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Montezuma Municipal Light & Power Plant's internal control over financial reporting and compliance.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

September 12, 2014

Management's Discussion and Analysis

The City of Montezuma Municipal Light and Power Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the Utility increased 5.4%, or approximately \$178,000, from fiscal 2013 to fiscal 2014. This is primarily due to higher demand from a major customer.
- Disbursements increased 8.1%, or approximately \$234,000 from fiscal 2013 to fiscal 2014. This is due primarily to higher energy usage and cooling tower purchases.
- The Utility's total cash basis net assets increased 12.3%, or approximately \$332,000 from June 30, 2013 to June 30, 2014.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the Utility as a whole and presents an overall view of the Utility's finances.

The Fund Financial Statements tell how proprietary services were financed in the short term as well as what remains for future spending. Fund financial statements report the Utility's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Supplementary Information provides detailed information about the schedule of indebtedness and revenue note maturities.

Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the Utility's net assets. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Activities and Net Assets show business type activities:

Business type activities include electric service. This activity is financed primarily by user charges.

Fund Financial Statements

The Utility has one kind of fund:

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains Enterprise Funds to provide information for the electric system, considered to be a major fund of the Utility.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Utility's cash balance increased from a year ago, from \$2,704,808 to \$3,036,526. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 3,430	3,246
General receipts:		
Unrestricted interest on investments	4	7
Other general receipts	25	28
Total receipts	3,459	3,281
Disbursements:		
Electric	3,127	2,893
Total disbursements	3,127	2,893
Change in cash basis net position	332	388
Cash basis net position beginning of year	2,705	2,317
Cash basis net position end of year	\$ 3,037	2,705

Total business type activities charges for service receipts for the fiscal year were \$3.430 million compared to \$3.246 million last year due primarily to increased usage. The cash balance increased by approximately \$332,000 from the prior year primarily due to increased usage. Total disbursements for the fiscal year increased by 8.1% to a total of \$3.127 million, due primarily to higher energy usage and purchases of cooling towers in 2013/14.

The Montezuma Municipal Light and Power Plant has no governmental activities.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Electric Fund cash balance increased by \$331,718, to \$3,036,526, due primarily to higher energy usage.

BUDGETARY HIGHLIGHTS

The Utility's budget was set at the beginning of the year with expected receipts at \$3,350,250 and disbursements at \$3,209,690. The Utility budget was not amended during the year. Total business type disbursements did not exceed the budget.

DEBT ADMINISTRATION

At June 30, 2014, the Utility had approximately \$2,860,000 in bonds and other long-term debt, compared to approximately \$3,185,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2014	2013
Revenue notes	\$ 2,860	3,185
Total	\$ 2,860	3,185

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Total revenues and sales for fiscal year 2015 are expected to remain about the same with a slight increase in usage due to our largest industrial customer starting to receive more work, completion of the school's new geothermal system running at 100%, the addition of several new homes, and anticipated additional new housing development. Weather, as always, will play a huge role in the usage amounts.

A study was done on the Demand and Industrial Rates during the past year and it was determined that rates should remain unchanged. Along with the study we looked at the Fuel Cost Adjustment (FCA). The study determined that it would be in our best interest to raise the Kwh charge by 2.5 cents per Kwh for all rate classes, which would in turn lower the FCA (now called the Power Cost Adjustment – PCA) by the same amount. This change would simply shift charges from the old FCA to Kwh charges without any increase or decrease in revenues.

Collection of bills has continued to improve with our involvement in the State's Offsets Program. This program allows us to collect on delinquent utility bills through the customer's income tax refunds. On the other hand, very strict rules from the IUB make the process of collection difficult by limiting when and how we can disconnect utility service for nonpayment.

We believe that the overall economy in Montezuma remains stable, with no significant increase or decrease.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Doug Ver Meer, Chairman of the Trustees, 501 East Main St., Box 314, Montezuma, Iowa 50171.

Basic Financial Statements

Exhibit A

City of Montezuma, Iowa
Municipal Light and Power Plant
Statement of Activities and Net Position - Cash Basis
As of and for the year ended June 30, 2014

				Net (Disbursements) Receipts and Changes in Cash Basis Net	
	Disbursements	Program Receipts		Assets	
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Business Type Activities	Total
Functions/Programs:					
Business type activities:					
Electric	\$ 3,126,861	3,429,453	-	302,592	302,592
Total business type activities	<u>\$ 3,126,861</u>	<u>3,429,453</u>	<u>-</u>	<u>302,592</u>	<u>302,592</u>
General Receipts:					
Unrestricted interest on investments				3,946	3,946
Miscellaneous				25,180	25,180
Total general receipts and transfers				<u>29,126</u>	<u>29,126</u>
Change in cash basis net position				331,718	331,718
Cash basis net position beginning of year				<u>2,704,808</u>	<u>2,704,808</u>
Cash basis net position end of year				<u>\$ 3,036,526</u>	<u>3,036,526</u>
Cash Basis Net Position:					
Restricted:					
Non-expendable:					
CMMPA required deposit				\$ 199,000	199,000
Expendable:					
Debt service/improvements				729,529	729,529
Unrestricted				<u>2,107,997</u>	<u>2,107,997</u>
Total cash basis net position				<u>\$ 3,036,526</u>	<u>3,036,526</u>

See notes to financial statements.

Exhibit B

City of Montezuma, Iowa
Municipal Light and Power Plant
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2014

	Enterprise Funds
	Electric
Operating receipts:	
Charges for service	\$ 3,429,453
Total operating receipts	<u>3,429,453</u>
Operating disbursements:	
Business type activities	<u>2,709,968</u>
Total operating disbursements	<u>2,709,968</u>
Excess of operating receipts over operating disbursements	719,485
Non-operating receipts (disbursements):	
Rental income	20,772
Interest on investments	3,946
Miscellaneous	4,408
Debt service	(414,168)
Miscellaneous expense	(2,725)
Total non-operating disbursements	<u>(387,767)</u>
Excess of receipts over disbursements	<u>331,718</u>
Change in cash balances	331,718
Cash balances beginning of year	<u>2,704,808</u>
Cash balances end of year	<u><u>\$ 3,036,526</u></u>
Cash Basis Fund Balances	
Restricted:	
Restricted for debt service/improvements	\$ 729,529
Restricted deposit-CMMPA	199,000
Unrestricted	<u>2,107,997</u>
Total cash basis fund balances	<u><u>\$ 3,036,526</u></u>

See notes to financial statements.

Exhibit C

City of Montezuma, Iowa

Municipal Light and Power Plant

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Position

Proprietary Funds

As of and for the year ended June 30, 2014

Total enterprise funds cash balances (Exhibit B)	\$ 3,036,526
Cash basis net position of business type activities (Exhibit A)	<u>\$ 3,036,526</u>
Net change in cash balances (Exhibit A)	<u>\$ 331,718</u>
Change in cash balance of business type activities (Exhibit B)	<u>\$ 331,718</u>

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma Municipal Light and Power Plant is a municipal utility operating in the City of Montezuma, Iowa. The Utility has a board appointed on a non-partisan basis. The Utility provides electric utility for the City's citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma Municipal Light and Power Plant has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria. The Utility is, however, a component unit of the City of Montezuma. The City of Montezuma Municipal Light and Power Plant is legally separate from the City of Montezuma but is financially accountable to the City. The Utility is governed by a five member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council and is a part of the City's certified budget. The Utility is includable as a component unit within the City of Montezuma reporting entity.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Position reports information on all of the non-fiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Position presents the Utility's non-fiduciary assets. Net assets are reported in the following categories/components:

Non-expendable restricted net position is subject to externally imposed stipulations which require them to be maintained by an outside party on behalf of the Utility.

Expendable restricted net position results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary fund:

The Enterprise, Electric Fund accounts for the operation and maintenance of the Utility's electric utility system.

C. Measurement Focus and Basis of Accounting

The City of Montezuma Municipal Light and Power Plant maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Light and Power Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The Utility has a required deposit which is a non-expendable restricted cash balance as listed in Exhibit A and B. The only expendable restricted net position cash balances available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. The sinking fund, reserve account and improvement account as described in Note (3) b), c) and d) are not available for current expenses.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the Utility's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and the unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements did not exceed the amount budgeted in the business type activities function.

(2) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$560,371 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk - The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year ending June 30,	Electric Revenue Notes, Series A 2011	
	Principal	Interest
2015	330,000	83,717
2016	335,000	77,283
2017	340,000	69,578
2018	350,000	60,907
2019	360,000	51,458
2020	370,000	40,297
2021	380,000	27,718
2022	395,000	14,417
Total	<u>\$2,860,000</u>	<u>425,375</u>

Revenue Notes

The Utility has pledged future electric customer receipts, net of specified operating disbursements, to repay \$3,820,000 in electric revenue notes issued in February 2012. Proceeds from the notes provided financing for a joint ownership with Mid-American Energy and thirteen other municipalities to construct and operate a coal fired steam electric generating unit in Pottawattamie County, Iowa. The note is payable solely from electric customer net receipts and is payable through 2022.

Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$3,285,375.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate electric revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c) An electric reserve account of \$413,718 shall be maintained within the Enterprise Funds until the 2011 note has been paid in full.
- d) An improvement account is set aside requiring \$2,500 on the first day of each month until \$150,000 is accumulated. The full \$150,000 improvement account has been set aside. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City of Montezuma Municipal Light and Power Plant contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012, were \$20,929, \$19,503, and \$18,116, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – There is a medical/prescription drug plan which provides benefits for retirees and their spouses. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

There were four active employees in the Electric Utility's plan at the year end. The plan has no early retirees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly health insurance premiums are \$583 for single coverage, \$1,194 employee/spouse coverage, \$1,103 employee/child and \$1,672 for family coverage. In addition to those base charges is \$14.25 per person on the health insurance plan to cover the affordable care act fee. Dental insurance is also offered at a rate of \$26 single coverage, \$79 family coverage.

The same monthly premiums apply to retirees, which they are required to pay in full. For the year ended June 30, 2014, the Electric Utility contributed \$50,059 to health insurance and \$2,219 for dental insurance and plan members contributed \$0 to the plans.

(6) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City of Montezuma Municipal Light and Power Plant until used or paid. The Utility's approximate liability for earned vacation payments payable to employees at June 30, 2014 is \$29,644. This liability has been computed based on rates in effect at June 30, 2014.

(7) Transactions Between the City and the Component Unit

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ 22,338	-
Water Dept. Billing/Meter Reading	13,173	-
Water Dept. bills paid by Electric	4,979	-
Gas Dept. Electric Use	1,207	-
Gas Dept. Billing/Meter Reading	13,173	-
Gas Dept. bills paid by Electric	5,658	-
General City Electric Use	43,330	-
Sewer/Recycling Billing	2,100	-
City bills paid by Electric	5,248	-
Computer Maintenance	10,216	-
Power Plants - Taxes in lieu	-	(55,421)
Totals	\$ 121,422	(55,421)

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

(8) Related Party Transactions

The Light and Power Plant had business transactions between the Plant and related parties of the Plant totaling \$2,956 during the year ended June 30, 2014.

(9) Risk Management

The Utility is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automotive liability, automobile physical damage, public officials liability, police professionals liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Utility's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utility's contributions to the Pool for the year ended June 30, 2014 were \$20,594.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utility's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utility's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's fund and any reinsurance and any excess risk-sharing recoveries, then the payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. The Utility does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, as June 30, 2014, no liability has been recorded in the Utility's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Utility also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The Utility assumes liability for any deductibles, and claims in excess of coverage limitations. The Utility paid \$6,254 for the year ended June 30, 2014 for this insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Economic Dependency

During the year ended June 30, 2014, the City of Montezuma Municipal Light and Power Plant had one major supplier who provided 100% of the Utility's purchased power. It also had one major customer, whose purchases totaled 28.3% of the charges for service revenue of the Utility.

(11) Commitments and Contingencies

On December 6, 2006, the City of Montezuma Municipal Light and Power Plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. There is a total contingent liability for \$238,617, or 0.88% of a \$27,115,533 investment by CMMPA. As of June 30, 2014, none of this has been paid. To date revenues have covered costs on this investment so CMMPA has not required the funds, but we remain committed to this payment if needed.

(12) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement will be implemented for fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

City of Montezuma, Iowa
Municipal Light and Power Plant
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)
Proprietary Funds
Other Information
Year ended June 30, 2014

	Proprietary Funds Actual	Budgeted Amounts	Final to Actual Variance
		Original & Final	
Receipts:			
Use of money and property	\$ 3,946	-	3,946
Miscellaneous	25,180	-	25,180
Charges for service	3,429,453	3,350,250	79,203
Total receipts	3,458,579	3,350,250	108,329
Disbursements:			
Business type activities	3,126,861	3,209,690	82,829
Total disbursements	3,126,861	3,209,690	82,829
Excess (deficiency) of receipts over (under) disbursements	331,718	140,560	191,158
Other financing sources, net	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	331,718	140,560	191,158
Balances beginning of year	2,704,808	(353,363)	3,058,171
Balances end of year	\$ 3,036,526	(212,803)	3,249,329

See accompanying independent auditor's report.

City of Montezuma, Iowa
Municipal Light and Power Plant
Notes to Other Information - Budgetary Reporting
June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year there were no amendments to the business type activity function of the electric utility budget.

During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

Supplementary Information

Schedule 1

City of Montezuma, Iowa
Municipal Light and Power Plant
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes:									
Electric-2011 Series A	2/28/2011	1.00-3.65%	\$ 3,820,000	\$ 3,185,000	-	325,000	2,860,000	88,918	27,606
				\$ 3,185,000	-	325,000	2,860,000	88,918	27,606

See accompanying independent auditor's report.

Schedule 2

City of Montezuma, Iowa
Municipal Light and Power Plant
Revenue Note Maturities
June 30, 2014

Year Ending June 30,	Electric Revenue Note	
	Issued February 28, 2011	
	Interest Rate	Amount
2015	1.95%	330,000
2016	2.30%	335,000
2017	2.55%	340,000
2018	2.70%	350,000
2019	3.10%	360,000
2020	3.40%	370,000
2021	3.50%	380,000
2022	3.65%	395,000
		<u>\$ 2,860,000</u>

See accompanying independent auditor's report.

**CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT**



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Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
City of Montezuma Municipal Light and Power Plant
Montezuma, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated September 12, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Montezuma Municipal Light & Power's internal control over financial reporting to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Montezuma Municipal Light & Power's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma Municipal Light & Power's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Montezuma Municipal Light & Power's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma Municipal Light and Power Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2014, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Montezuma Municipal Light and Power Plant's Responses to Findings

The City of Montezuma Municipal Light and Power Plant's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Montezuma Municipal Light and Power Plant's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma Municipal Light and Power Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

September 12, 2014

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

- (A) Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Due to cross-training for versatility, personnel have access to functions which, from a segregation of duties standpoint, are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utility should segregate duties to the extent possible with existing personnel and continue to utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

Instances of Non-compliance:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2014 did not exceed the budgeted amounts.
- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City of Montezuma Municipal Light and Power Plant money for travel expenses of spouses of Utility officials or employees were noted.
- (4) Business Transactions - Business transactions between the Utility and Utility officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jim Hicks, Mayor, Owner of Jim's Heating and Air Conditioning	AC/furnace repairs	\$ 326
Mike Fahlenkamp, father-in-law of Shanel Fahlenkamp, Trustee Secretary	Furnace repairs	256
Kyler Kudart, Plant Superintendent's son, Kyler's Mowing Service	Mowing	750
Seth Fahlenkamp, son of Shanel Fahlenkamp, Trustee Secretary	Mowing	430
Doug Ver Meer, Trustee, Owner of Vannoy Chevrolet	Truck service/repair	1,194

City of Montezuma, Iowa
Light and Power Plant
Schedule of Findings
Year ended June 30, 2014

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, transactions do not appear to represent a conflict of interest since each total transaction was less than \$1,500 during the fiscal year.

- (5) Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Trustee Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- (8) Revenue Note - The City of Montezuma Municipal Light and Power Plant has established proper accounts as required by the utility revenue note resolution. No instances of non-compliance with the revenue bond resolutions were noted.